

**THE OFFICE OF REGULATORY STAFF  
REVISED REHEARING TESTIMONY AND  
EXHIBITS**

**OF**

**DAWN M. HIPPI**

**NOVEMBER 29, 2017**



**DOCKET NO. 2014-346-WS**

**Daufuskie Island Utility Company, Incorporated for  
Approval of an Increase for Water and Sewer Rates  
Terms and Conditions**

**REHEARING REVISED TESTIMONY AND EXHIBITS OF DAWN M. HIPPI**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2014-346-WS**

**IN RE: APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY,  
INCORPORATED FOR APPROVAL OF AN INCREASE FOR WATER AND  
SEWER RATES, TERMS AND CONDITIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of the Utility Rates and Services Department of the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received my Bachelor's Degree in Political Science from Minnesota State University - Moorhead. Prior to my employment with ORS, I managed the financial, operations and regulatory aspects for an environmental company that provided turn-key hazardous waste consulting services for the United States Department of Defense.

In 2004, I joined ORS as a Program Specialist for the Water and Wastewater Department. I became a Director in 2007 and currently manage the regulatory operations of the ORS Utility Rates and Services Department. In this role, I supervise the daily activities to provide regulatory analysis and monitor compliance related to electric,

1 natural gas, water and wastewater investor-owned utilities. In addition, I am responsible  
2 for the operations of the ORS Consumer Services Division.

3 **Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF**  
4 **SOUTH CAROLINA (“COMMISSION”)?**

5 **A.** Yes. I have testified on numerous occasions before the Commission in  
6 connection with general rate cases and other proceedings.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS REHEARING**  
8 **PROCEEDING?**

9 **A.** The purpose of my rehearing testimony is to adopt the direct testimony and  
10 exhibits of Willie J. Morgan filed on October 2, 2015, and re-affirm the positions taken  
11 by ORS witness Morgan during the October 28, 2015, hearing with the exception of any  
12 changes made to comply with the South Carolina Supreme Court Opinion No. 27729,  
13 Supreme Court Order issued on November 15, 2017, or resulting from new evidence  
14 presented by Daufuskie Island Utility Company, Inc. (“DIUC” or “Company”). The  
15 ORS adjustments to comply with the South Carolina Supreme Court Opinion and Order  
16 include incorporating the elevated water storage tank and other utility equipment on the  
17 “Elevated Tank Site” property in rate base, property tax expenses, bad debt expense and  
18 bond premiums. In addition, I will present ORS’s findings and recommendations related  
19 to the ORS review of the rehearing testimony and exhibits filed by John F. Guastella and  
20 Gary C. White on behalf of DIUC and applicable discovery related to DIUC’s rate case  
21 invoices, management fees and request for a deferral of \$155,328.

1     **Q.   HAVE YOU REVIEWED SOUTH CAROLINA SUPREME COURT OPINION**  
2     **NO. 27729 AND THE SOUTH CAROLINA SUPREME COURT ORDER DATED**  
3     **NOVEMBER 15, 2017?**

4     **A.           Yes.**

5     **Q.   DID THE SOUTH CAROLINA SUPREME COURT ORDER DATED**  
6     **NOVEMBER 15, 2017 PROVIDE GUIDANCE RELATED TO HOW THE**  
7     **COMMISSION IS TO HANDLE COSTS RELATED TO BOND PREMIUMS?**

8     **A.           Yes.**   ORS made an adjustment to rate case expenses to include \$53,726 in bond  
9     premiums in response to the Supreme Court Order. DIUC provided invoices and  
10    documentation to support the bond premium expenses and ORS verified DIUC incurred  
11    \$53,726 in bond premium expenses related to obtaining bonds required by S.C. Code  
12    Laws Ann. § 58-5-240(D).

13    **Q.   DOES DIUC REQUEST ADDITIONAL RATE CASE EXPENSES IN THIS**  
14    **REHEARING?**

15    **A.           Yes.**   DIUC witness Guastella requests recovery of rate case expenses of  
16    \$794,210 plus \$60,782 in bond costs over a period of three (3) years (Rehearing  
17    Testimony Guastella p.14, line 4). On October 24, 2017, ORS requested DIUC provide  
18    detailed invoices and other documentation to support all rate case and bond cost expenses  
19    incurred since August 11, 2015, for which the Company is seeking recovery. In  
20    response, DIUC provided 56 invoices to support the rate case expenses which total  
21    \$705,210.23. In addition, DIUC provided four (4) invoices to support the bond cost  
22    expenses totaling \$60,781.56. The invoices and supporting documentation provided by

DIUC on October 27, 2017, in response to ORS's October 24, 2017 request are attached as Rehearing Exhibit DMH-1.

**Q. DID ORS REVIEW THE INVOICES AND SUPPORTING DOCUMENTATION PROVIDED BY DIUC TO SUPPORT ITS REQUEST FOR RECOVERY OF RATE CASE EXPENSES?**

**A.** Yes. ORS reviewed the invoices and supporting documentation provided by DIUC (Rehearing Exhibit DMH-1). ORS applied the following criteria to ensure the DIUC invoices and supporting documentation included for ratemaking meet "known and measurable" standards:

- 1) The invoice is mathematically correct;
- 2) The invoice is for a valid business purpose;
- 3) The expense was incurred during the period under review;
- 4) The invoice was properly recorded on the books and records of the Company;
- and
- 5) The invoice was paid by the Company.

**Q. WHAT IS ORS'S RECOMMENDATION RELATED TO THE RATE CASE EXPENSES REQUESTED BY DIUC?**

**A.** ORS recommends that DIUC be allowed to recover \$272,382 of the total requested \$794,210 in rate case expenses. DIUC did not provide invoices to support approximately \$88,999. Therefore, ORS did not include \$88,999 in unsupported rate case expense. ORS witness Daniel Sullivan provides the detailed calculation of the ORS recommended rate case expense amount of \$272,382 in Adjustment 6(a).

1   **Q.   PLEASE EXPLAIN THE ORS RECOMMENDED ADJUSTMENTS TO DIUC'S**  
2   **REQUESTED RATE CASE EXPENSES.**

3   **A.**ORS recommends the following adjustments to the rate case expenses requested  
4   by DIUC in the rehearing testimony of DIUC witness Guastella:

5       1) Remove Prolegal invoice #CHS145021 for \$3,905.65. The expense from Prolegal is  
6   for printing, binding, and legal brief prints. DIUC sought and received recovery of the  
7   same expense from the South Carolina Supreme Court. See DIUC's Motion for Costs  
8   filed with the South Carolina Supreme Court and the South Carolina Supreme Court  
9   Order issued November 15, 2017 provided as Rehearing Exhibit DMH-2.

10       2) Remove \$1,470 for portions of the invoices the law firms of Pratt-Thomas Walker and  
11       Walker, Gressette, Freeman, Linton. Rehearing Exhibit DMH-3 provides a detailed  
12   listing of the invoices and amounts to be removed. Based on the invoice descriptions  
13   provided by the law firms, the work detailed corresponds to the law firm's assistance on  
14   utility customer matters, loan financing, and issues concerning DIUC's condemnation  
15   proceeding for the Elevated Tank Site. The legal work relates to routine customer matters  
16   and loan financing and is not recoverable in this rate case because the expenses were  
17   incurred outside of the original test year ending December 31, 2014. In addition, ORS  
18   believes the DIUC shareholders should bear the cost of the law firm's work to regain the  
19   ownership and resolve property tax issues related to the Elevated Tank Site. DIUC  
20   customers should not pay to re-acquire assets lost through a property tax sale.

21       3) Reduce rate case expenses by \$1,000 to account for the legal cost DIUC requested to  
22       be recovered at the South Carolina Supreme Court. DIUC sought and received recovery

1 of the same expense from the South Carolina Supreme Court. See DIUC's Motion for  
2 Costs filed with the South Carolina Supreme Court and the South Carolina Supreme  
3 Court Order issued November 15, 2017 provided as Rehearing Exhibit DMH-2.

4 4) Reduce Pratt-Thomas Walker invoice #82258 by \$3,905.65 for copies by Prolegal.

5 DIUC has sought and received recovery of the same expense from the South Carolina  
6 Supreme Court. Invoice #82258 for Pratt-Thomas Walker includes a charge for Prolegal  
7 for \$3,905.65 and DIUC provided a Prolegal invoice #CHS145021 for the exact same  
8 charges. See DIUC's Motion for Costs filed with the South Carolina Supreme Court and  
9 the South Carolina Supreme Court Order issued November 15, 2017 provided as  
10 Rehearing Exhibit DMH-2.

11 5) Remove \$542,978 of Guastella Associates, LLC ("GA") invoices. In general, the GA  
12 invoices:

- 13 • Contain mathematical errors;
- 14 • Do not contain sufficient detail to describe the work performed, the  
15 specific dates and hours of work, employee name, and business purpose;
- 16 • Contain expenses such as air fare, lodging, and meals for which no detail  
17 or receipt was provided; and,
- 18 • Do not appear to be paid by DIUC.

19 **Q. WHAT AMORTIZATION PERIOD DOES ORS RECOMMEND FOR RATE**  
20 **CASE EXPENSES?**

21 A. ORS recommends that rate case expenses be recovered over a period of five (5)  
22 years instead of the three (3) years recommended by DIUC witness Guastella. ORS

1 affirms its position that a five (5) year amortization period is a reasonable balance  
2 between the shareholders and ratepayers for this proceeding.

3 **Q. WHAT RECOMMENDATIONS DOES ORS MAKE REGARDING THE**  
4 **MANAGEMENT FEES FOR GUASTELLA ASSOCIATES, LLC?**

5 **A.** ORS affirms its previously taken position that management fees paid to GA  
6 should be limited to \$132,211. GA invoices DIUC for various services under a  
7 Management Agreement that has an initial term beginning June 18, 2015, and extending  
8 through December 31, 2018. See Guastella Associates, LLC Management Agreement  
9 provided as Rehearing Exhibit DMH-4. Through the management agreement, DIUC and  
10 its apparent parent company, Daufuskie Island Utility Holding Company, LLC (which is  
11 registered with the South Carolina Secretary of State as Daufuskie Island Holding  
12 Company, LLC) have delegated to GA the authority to act on behalf of DIUC and its  
13 parent. It is ORS's position that the services provided by GA to DIUC did not increase  
14 during the test year from those provided by GA in Docket No. 2011-229-WS.

15 In addition, it is ORS's position that the management agreement lacks sufficient  
16 checks and balances to protect DIUC, its parent company and its ratepayers from  
17 decisions made by its vendor, GA. For example, under GA's management, the Elevated  
18 Tank Site was sold to a third-party due to the failure of GA to pay property taxes. This  
19 does not reflect the goals set by DIUC for GA, which include "...operate the Company  
20 efficiently and manage its assets in order to minimize the rates charged to customers..."  
21 (Rehearing Exhibit DMH-4 page 3). The owners of DIUC have remained silent while



1 DIUC's vendor, GA, seeks to pass all costs related to resolving the property tax issues  
2 and Elevated Tank Site ownership to the ratepayers.

3 ORS's analysis as presented in Rehearing Exhibit DMH-5 indicates the dollar  
4 amount of management fees requested by DIUC are in excess of what other similarly  
5 situated investor-owned water and wastewater utilities pay for similar services. ORS  
6 calculated that, on a monthly basis, a DIUC customer would pay over \$30 per month for  
7 management services if the Commission approved DIUC's request. By comparison,  
8 Kiawah Island Utility, Inc. customers spend approximately \$7 per month for management  
9 services.

10 **Q. PLEASE EXPLAIN ORS'S POSITION WITH REGARD TO THE AMOUNT OF**  
11 **THE PERFORMANCE BOND FOR DIUC.**

12 **A.** ORS affirms its previously stated position that the amount of DIUC's bond should  
13 remain at \$350,000 for water operations and \$350,000 for wastewater operations.

14 **Q. DOES ORS RECOMMEND ANY ADDITIONAL ADJUSTMENTS TO THE TEST**  
15 **YEAR REVENUES OF DIUC?**

16 **A.** No. ORS affirms its previously stated position and does not recommend any  
17 further adjustments to revenue. ORS does not agree to the Pro Forma Proposed Rates  
18 operating revenue calculated by DIUC's witness Gary White in Rehearing Exhibit GCW-  
19 R1. The Pro Forma Proposed Rates operating revenue listed in Rehearing Exhibit GCW-  
20 R1 exceed the rates that DIUC noticed to customers.

21 **Q. DOES ORS AGREE WITH THE DEFERRAL OF \$155,328 REQUESTED BY**  
22 **DIUC?**

1     **A.**           No. DIUC witness Guastella requests the Commission approve a deferral of  
2           \$155,328 for future rate recognition. The \$155,328 appears to relate to rate case and  
3           bond expenses. As stated earlier in my testimony, it is ORS's position many of DIUC's  
4           rate case expenses should not be included for rate recovery and recovery of the expenses  
5           related to the bond have been requested through the South Carolina Supreme Court. It is  
6           ORS's position that, to the extent DIUC incurred recoverable rate case expenses, those  
7           expenses should be recovered in the case presently before the Commission. It is unclear  
8           if DIUC's request for an accounting order would increase rates and charges and if the  
9           utility should provide notice to the customers. For these reasons, ORS recommends the  
10          deferral request be denied.

11    **Q.       DOES THIS CONCLUDE YOUR REHEARING TESTIMONY?**

12    **A.**           Yes it does.

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Rehearing Exhibit DMH-1**

**REHEARING EXHIBIT DMH-1 REDACTED**

**Daufuskie Island Utility Company, Inc.**  
**Docket No. 2014-346-WS**  
**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**STATE OF SOUTH CAROLINA**  
**In the Supreme Court**

**APPEAL FROM THE PUBLIC SERVICE COMMISSION**

**Appellate Case No. 2016-000652**

**Daufuskie Island Utility Company, Inc.,**

**Appellant,**

**v.**


**South Carolina Office of Regulatory Staff,  
Haig Point Club and Community Association, Inc.,  
Melrose Property Owner's Association, Inc.,  
Bloody Point Property Owner's Association, and  
Beach Field Properties, LLC,**

**Respondents.**

**MOTION FOR COSTS**

Pursuant to Rule 222 of the South Carolina Appellate Court Rules, the Appellant, Daufuskie Island Utility Company, Inc., hereby moves this honorable Court for an order granting attorney's fees and costs against Respondents as set forth in the attached Form 17, Itemized Statement of Costs.



  
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**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**Daufuskie Island Utility Company, Inc.**  
**Charleston, South Carolina**

**August \_\_, 2017**

**Daufuskie Island Utility Company, Inc.**  
**Docket No. 2014-346-WS**  
**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

STATE OF SOUTH CAROLINA  
In the Supreme Court

APPEAL FROM THE PUBLIC SERVICE COMMISSION

Appellate Case No. 2016-000652

Daufuskie Island Utility Company, Inc.,

Appellant,

v.

South Carolina Office of Regulatory Staff,  
Haig Point Club and Community Association, Inc.,  
Melrose Property Owner's Association, Inc.,  
Bloody Point Property Owner's Association, and  
Beach Field Properties, LLC,

Respondents.

ITEMIZED STATEMENT OF COSTS

The Supreme Court is requested to tax the following costs against the Respondents:

TAXABLE COSTS	PAGES	RATE	REQUESTED	ALLOWED
Filing Fee Paid Under Rule 203(d), SCACR			\$ 100.00	
Cost of Court Reporter's Transcript			\$ 1,318.50	
Cost for printing and binding for the Record on Appeal under Rule 209	31,563	.12 per page (with covers)	\$ 3,905.65	
Cost for printing and binding Final Brief and Final Reply Brief	82	4.05	\$ 332.22	
Attorney's Fee Provided by Rule 222(b), SCACR			\$ 1,000.00	
Bond Premiums per S.C. Code Ann. § 58-5-240(D) *			\$ 53,726.00	
<b>TOTAL</b>			<b>\$ 60,382.37</b>	


**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

I, Thomas P. Gressette, Jr., do swear that the foregoing costs are correct and were necessarily incurred in this action. A copy of this statement was mailed to opposing counsel.

  
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Attorneys for Appellant  
Daufuskie Island Utility Company, Inc.

Subscribed and sworn to before me this  
24 day of August, 2017.

  
Notary Public for South Carolina  
My Commission Expires: 12/3/20

\* Copies of the Commission Orders related to the Bonds are attached as Exhibit A (Order 2016-156, Order 2017-402, and 2017-402(A)).

**Daufuskie Island Utility Company, Inc.  
Docket No. 2014-346-WS  
Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**



BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2016-156

MARCH 1, 2016

IN RE: Application of Daufuskie Island Utility	)	ORDER APPROVING
Company, Incorporated for Approval of an	)	APPEALS BOND
Increase for Water and Sewer Rates, Terms	)	
and Conditions	)	

**INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina ("Commission") on the Petition for Approval of Bond Pursuant to S.C. Code Ann. Section 58-5-240 ("the Petition") filed by Daufuskie Island Utility Company, Inc. ("Daufuskie Island", "the Company" or "the utility"). Having examined the utility's Petition and supporting materials, as well as the filings submitted by the other parties, and having determined that the surety selected by the utility and that a proposed amount of the bond to be discussed *infra* are in accordance with the requirements of the applicable statute, the Commission is required to approve the bond. Under South Carolina law, the utility may, notwithstanding this Commission's order partially rejecting its petition for rate relief, implement the proposed rate increases during the pendency of its appeal if it posts sufficient bond in accordance with S.C. Code Ann. § 58-5-240(D). Pursuant to this subsection, if our order denying in part the proposed rate relief is upheld on appeal, the utility will be required to refund the additional funds collected during the pendency of appeal with interest accrued at the rate of twelve percent per annum.



**Daufuskie Island Utility Company, Inc.  
Docket No. 2014-346-WS  
Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

DOCKET NO. 2014-346-WS – ORDER NO. 2016-156  
MARCH 1, 2016  
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**SUMMARY OF THE UNDERLYING RATE CASE**

On June 11, 2015, Daufuskie Island filed an Application seeking approval of a new schedule of rates and charges for water and sewer services. The Application sought an increase in annual service revenues of \$1,182,301 for combined operations. The Commission held an evening public hearing on September 15, 2015, and an evidentiary hearing on October 28, 2015. A joint proposed order was filed by the Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., Bloody Point Property Owner's Association (collectively, the POAs) and the Office of Regulatory Staff ("ORS"). The utility also filed a proposed order. On December 8, 2015, in Order No. 2015-846, the Commission approved additional operating revenues of \$462,798. Daufuskie Island filed a Petition for Reconsideration and/or Rehearing with this Commission. Various parties filed responses to this Petition. On January 13, 2016, this Commission entered a Directive denying the utility's Petition. On February 25, 2016, this Commission issued Order No. 2016-50, which implemented the terms of the January 13, 2016 Directive.

**TERMS AND CONDITIONS OF THE PROPOSED BOND**

Daufuskie Island requests that the Commission approve a bond pursuant to S.C. Code Ann. Section 58-5-240(D) in the amount of \$700,000, pending any subsequent appeal. According to the utility, the \$700,000 figure represents the additional annual revenue which Daufuskie Island would be entitled to earn if the Commission had approved the Application in full. Daufuskie Island submits that, based upon the additional amount of revenues which would be generated had the Commission approved the requested

**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Motion for Costs and Order****REHEARING EXHIBIT DMH-2**

DOCKET NO. 2014-346-WS - ORDER NO. 2016-156

MARCH 1, 2016

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increase, a surety bond in the amount proposed is sufficient.

Subsequent to the filing of the utility's Petition, other parties in the case filed responses, proposing varying amounts for the bond. The Property Owners Associations of Haig Point, Melrose, and Bloody Point jointly assert that a bond in the amount of two years collections, plus 12% interest amounting to \$1,568,000 constitutes a more reasonable amount for the bond. The ORS proposes one and one-half years' worth of collections and interest, for a total bond amount of \$1,218,141.27. The utility filed replies to both parties' submissions, noting, *inter alia*, that the increase under bond to proposed utility rates would not begin until the second quarter of 2016, i.e. April 1, 2016, with bills mailed after July 1, 2016. Daufuskie Island noted that it would take until May 2017 for customers to have paid a full year of the Company-requested increased revenue.

Daufuskie Island later modified its Petition somewhat to propose that the ORS calculation for one year of collections plus interest should be used for the bond figure. Although the utility states that ORS calculated this amount to be \$731,346, the actual ORS calculation for a year's collection plus interest was \$787,867. In addition, the Company noted that if the Commission wanted to place additional conditions on the bond, that it would consent to either increase the bond prior to the July 1, 2017 billing, or otherwise reduce rates to the level approved by the Commission's original rate order of December 8, 2015, also to be done prior to the July 1, 2017 billings.

**THE APPLICABLE STATUTE**

In Section 1 of Act No. 138 of 1983, the South Carolina General Assembly substantially rewrote Section 58-5-240 of the South Carolina Code. The amendment to

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

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Section 58-5-240 provided in part that if the Commission rejects a utility's application for rate relief, the utility may nevertheless choose to impose a rate increase while the utility seeks reconsideration by the Commission of the matter and/or appeal of the Commission's denial of rate relief before the Supreme Court of South Carolina, so long as the utility provides an appropriate surety bond in an amount sufficient to ensure repayment of any overcollection, with interest to be assessed at twelve percent per annum. The Commission is without discretion to prohibit the utility from imposing its proposed rates under an appropriate bond. The statute, as amended by the General Assembly in 1983, allows the utility to impose its proposed rates under bond as a matter of right where the utility demonstrates that the surety and the bond are sufficient to ensure that the ratepayers will be reimbursed with interest for overcharges in the event the utility's appeal is ultimately unsuccessful.

**ORDER**

Based on the information presented to us, the proposed surety and the bond in the amount of \$787,867, effective July 1, 2016, for a period of one year are appropriate and are approved. With the additional condition approved by us, *infra*, we believe that the public is being properly protected while this matter is on appeal.

As an additional condition of the bond, the Company shall file a status report on or before May 1, 2017, to advise this Commission as to the status of the Company's appeal of this Commission's Orders. If the utility expects the appeals process to extend beyond July 1, 2017 at the time of the status report, the utility shall also file a proposal as to how it believes the bonding period should be extended. Daufuskie Island shall serve the status

**Daufuskie Island Utility Company, Inc.  
Docket No. 2014-346-WS  
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**REHEARING EXHIBIT DMH-2**

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MARCH 1, 2016  
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report, and, if necessary, the proposal for bond continuation on the parties, who will have until May 15, 2017, to file comments with this Commission on the status report and/or proposal for bond continuation.

Should the original rates proposed by the Company be deemed excessive by the Court, then refunds plus interest must be made to the Company's customers in a manner consistent with the provisions of S.C. Code Ann. Section 58-5-240, and in a manner approved by this Commission. If the Company's appeal is unsuccessful, it shall submit a plan for refunds to the Commission, with copies to the parties within ten (10) days of receipt of the Court Order notifying them of loss of the appeal. The other parties shall then have ten (10) days from receipt of the Company's proposed methodology to comment.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
Nikiya Hall, Chairman

ATTEST:

  
\_\_\_\_\_  
Swain E. Whitfield, Vice Chairman

(SEAL)

**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Motion for Costs and Order****REHEARING EXHIBIT DMH-2****BEFORE****THE PUBLIC SERVICE COMMISSION OF****SOUTH CAROLINA****DOCKET NO. 2014-346-WS - ORDER NO. 2017-402****JUNE 28, 2017**

IN RE: Application of Daufuskie Island Utility Company, Inc. for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	) ) ) ) )	ORDER APPROVING JOINT REQUEST FOR BOND DURING APPEAL
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This matter comes before the Public Service Commission of South Carolina ("Commission") on the "Joint Request As To Appeals Bond" ("Joint Request") of Daufuskie Island Utility Company, Inc. and a majority of the Docket's intervenors for a renewed performance bond while an appeal of its last rate case is pending before the South Carolina Supreme Court.<sup>1</sup> The current bond covering the appeal period was approved by Commission Order No. 2016-156 (March 1, 2016). As the Joint Request states, the utility secured this appeal bond, permitted by S.C. Code Ann. § 58-5-240(D), to charge the rates it would otherwise be entitled to collect if the Commission had not partially denied its last application for a rate increase.

Under Order No. 2016-156, the appeal bond expires on June 30, 2017, and to meet the terms of that Order, the utility and intervenors have agreed to the following proposal:

<sup>1</sup> The Docket's intervenors consenting to the Joint Request are Beech Field Properties, LLC, Bloody Point Property Owner's Association, Haig Point Club and Community Association, Inc., and Melrose Property Owner's Association, Inc. According to the Joint Request, these entities and Daufuskie Island Utility Company shared the proposal with the Office of Regulatory Staff, an automatic party of record pursuant to S.C. Code Ann. § 58-4-10(B).

**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Motion for Costs and Order****REHEARING EXHIBIT DMH-2****DOCKET NO. 2014-346-WS -- ORDER NO. 2017-402****JUNE 28, 2017****PAGE 2**

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1. If the Supreme Court does not issue a decision in the pending appeal on or before June 28, 2017, the utility shall:
  - a. Renew the existing bond to continue in effect for an additional period of six months to expire on January 1, 2018, in order to continue coverage for the period July 1, 2016 to June 30, 2017;
  - b. Obtain an additional surety bond in the amount of \$415,728.00 to be in effect for a period of six months beginning on July 1, 2017 and expiring on January 1, 2018. The Additional Bond amount includes:
    - (1) \$21,794.00, representing 6 months' additional interest at 12% annually on the additional revenue the utility collected between July 1, 2016 and June 30, 2017 by virtue of implementing the Requested Rates; plus
    - (2) \$393,934.00, representing the difference between six months of billings (to be collected during the period beginning July 1, 2017 and ending on January 1, 2018) at the utility's requested rates and the Commission approved rates currently on appeal, plus 12% annual interest pursuant to S.C. Code Ann. § 58-5-240(D).
2. On or before June 30, 2017, the utility shall file with the Commission and serve on the parties copies of the renewed/extended existing bond and the additional bond.
3. If the Supreme Court does not issue a decision in the pending appeal on or before November 1, 2017, the utility shall then file a status report on or before November 15, 2017, to advise this Commission as to the status of the Company's appeal of the Commission's Orders. Consistent with Order 2016-156, the utility shall include its proposal for extending the existing bond and the additional bond (or otherwise providing appropriate coverage on January 1, 2018 and beyond).

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**DOCKET NO. 2014-346-WS – ORDER NO. 2017-402**

**JUNE 28, 2017**

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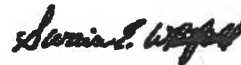
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**IT IS THEREFORE ORDERED:**

After reviewing this matter, we find that the Joint Request for the appeal bond is in the public interest and therefore approved.

This Order shall remain in full force and effect until further order of the Commission.

**BY ORDER OF THE COMMISSION:**



Swain E. Whitfield, Chairman

**ATTEST:**



Comer H. Randall, Vice Chairman

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF**

**SOUTH CAROLINA**

**DOCKET NO. 2014-346-WS - ORDER NO. 2017-402(A)**

**JUNE 30, 2017**

IN RE: Application of Daufuskie Island Utility Company, Inc. for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	) AMENDED ORDER ) APPROVING JOINT ) REQUEST FOR BOND ) DURING APPEAL
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This Order is amended to correct footnote 1 which lists the intervenors in the above captioned docket that are signatories consenting to Daufuskie Island Utility Company, Inc.'s request for an appeals bond as explained below. Footnote 1 of the original order mistakenly listed intervenor Beach Field Properties, LLC as one of the consenting signatories. According to counsel for Beach Field Properties, it is not a party to the appeal currently pending before the South Carolina Supreme Court and did not participate or consent in the matter of the appeals bond. Beach Field Properties' counsel further states that it takes no position regarding the appeals bond. Accordingly, Beach Field Properties, LLC has been removed from the list in footnote 1. The following Order is otherwise the same in content as Order No. 2017-402, issued on June 28, 2017.

This matter comes before the Public Service Commission of South Carolina ("Commission") on the "Joint Request As To Appeals Bond" ("Joint Request") of Daufuskie Island Utility Company, Inc. and a majority of the Docket's intervenors for a renewed performance bond while an appeal of its last rate case is pending before the South



**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Motion for Costs and Order****REHEARING EXHIBIT DMH-2**

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Carolina Supreme Court.<sup>1</sup> The current bond covering the appeal period was approved by Commission Order No. 2016-156 (March 1, 2016). As the Joint Request states, the utility secured this appeal bond, permitted by S.C. Code Ann. § 58-5-240(D), to charge the rates it would otherwise be entitled to collect if the Commission had not partially denied its last application for a rate increase.

Under Order No. 2016-156, the appeal bond expires on June 30, 2017, and to meet the terms of that Order, the utility and intervenors have agreed to the following proposal:

1. If the Supreme Court does not issue a decision in the pending appeal on or before June 28, 2017, the utility shall:
  - a. Renew the existing bond to continue in effect for an additional period of six months to expire on January 1, 2018, in order to continue coverage for the period July 1, 2016 to June 30, 2017;
  - b. Obtain an additional surety bond in the amount of \$415,728.00 to be in effect for a period of six months beginning on July 1, 2017 and expiring on January 1, 2018. The Additional Bond amount includes:
    - (1) \$21,794.00, representing 6 months' additional interest at 12% annually on the additional revenue the utility collected between July 1, 2016 and June 30, 2017 by virtue of implementing the Requested Rates; plus
    - (2) \$393,934.00, representing the difference between six months of billings (to be collected during the period beginning July 1, 2017 and ending on January 1, 2018) at the utility's requested rates and the

<sup>1</sup> The Docket's intervenors consenting to the Joint Request are Bloody Point Property Owner's Association, Haig Point Club and Community Association, Inc., and Malmoe Property Owner's Association, Inc. According to the Joint Request, these entities and Daufuskie Island Utility Company shared the proposal with the Office of Regulatory Staff, an automatic party of record pursuant to S.C. Code Ann. § 58-4-10(B).

**Daufuskie Island Utility Company, Inc.**

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Commission approved rates currently on appeal,  
plus 12% annual interest pursuant to S.C. Code Ann.  
§ 58-5-240(D).

2. On or before June 30, 2017, the utility shall file with the Commission and serve on the parties copies of the renewed/extended existing bond and the additional bond.
3. If the Supreme Court does not issue a decision in the pending appeal on or before November 1, 2017, the utility shall then file a status report on or before November 15, 2017, to advise this Commission as to the status of the Company's appeal of the Commission's Orders. Consistent with Order 2016-156, the utility shall include its proposal for extending the existing bond and the additional bond (or otherwise providing appropriate coverage on January 1, 2018 and beyond).

**IT IS THEREFORE ORDERED:**

After reviewing this matter, we find that the Joint Request for the appeal bond is in the public interest and therefore approved.

This Order shall remain in full force and effect until further order of the Commission.

**BY ORDER OF THE COMMISSION:**



**Swain B. Whitfield, Chairman**

**ATTEST:**



**Comer H. Randall, Vice Chairman**

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**IN THE STATE OF SOUTH CAROLINA**  
**In the Court of Appeals**

**APPEAL FROM BEAUFORT COUNTY**  
**Court of Common Pleas**  
**Honorable J. Ernest Kinard, Jr., Circuit Court Judge**  
**Case No. 2013-CP-07-02255**

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**Appellate Case No. 2014-001587**

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**Mamdouh Sabry Abdelrahman,**

**Appellant,**

**vs.**

**Daufuskie Island Utility Company, Inc.,**

**Respondent.**

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**PROOF OF SERVICE**

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The undersigned hereby certifies that on this 24 day of August 2017, in Charleston, South Carolina, a copy of APPELLANT'S MOTION FOR COSTS was served on counsel of record, by placing same in the United States Mail, first class postage prepaid as follows:

**Shannon Bowyer Hudson**  
**Andrew M. Bateman**  
**SOUTH CAROLINA OFFICE OF REGULATORY STAFF**  
**1401 Main Street, Suite 900**  
**Columbia, SC 29201**  
**T: (803)737-8440**  
**ATTORNEYS FOR OFFICE OF REGULATORY STAFF**

**John J. Pringle, Jr.**  
**ADAMS & REESE, LLP**  
**1501 Main Street, 5<sup>th</sup> Floor**  
**Columbia, SC 29201**  
**T: (803)254-4190**  
**ATTORNEYS FOR HAIG POINT CLUB and COMMUNITY ASSOCIATION, INC.,**  
**MELROSE PROPERTY OWNER'S ASSOCIATION, INC., and**  
**BLOODY POINT PROPERTY OWNER'S ASSOCIATION**

  
**Nancy Jane Dennis**

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

## **The Supreme Court of South Carolina**

**Daufuskie Island Utility Company, Inc., Appellant,**

**v.**

**South Carolina Office of Regulatory Staff, Haig Point  
Club and Community Association, Inc., Melrose Property  
Owner's Association, Inc., and Bloody Point Property  
Owner's Association, Respondents.**


**Appellate Case No. 2016-000652**

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### **ORDER**

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Pursuant to Rule 222 of the South Carolina Appellate Court Rules, the motion for costs filed by Daufuskie Island Utility Company, Inc. is granted in part in the amount of \$6,656.37 against South Carolina Office of Regulatory Staff, Haig Point Club and Community Association, Inc., Bloody Point Property Owner's Association, and Beach Field Properties, LLC. The \$56,726.00 amount for bond premiums obtained pursuant to Section 58-5-240(D) is denied. The lower court or tribunal is directed to add this award of costs to the remittitur.

  
\_\_\_\_\_  
FOR THE COURT C.J.  
Justice George C. James, Jr., not participating

**Columbia, South Carolina**

**November 15, 2017**

**cc:**

**Thomas P. Gressette, Jr., Esquire**

**Shannon Bowyer Hudson, Esquire**

**Andrew McClendon Bateman, Esquire**

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Motion for Costs and Order**

**REHEARING EXHIBIT DMH-2**

**John Julius Pringle, Jr., Esquire  
Jocelyn Boyd, Esquire  
Fred David Butler, Esquire  
George Trenholm Walker, Esquire  
Lyndey Ritz Zwingelberg, Esquire  
Public Service Commission of South Carolina**

**Daufuskie Island Utility Company, Inc.**  
**Docket No. 2014-346-WS**  
**Rate Case Reduction Detail for Legal Expenses**

**REHEARING EXHIBIT DMH-3**

Invoice Number	Vendor Name	Date of Activity	Hourly Rate	Hours Worked	Total Cost	Person Worked	Work Description Summary
79338	Pratt-Thomas Walker	2/1/2016	\$350.00	0.5	\$175.00	GTW	Loan
79338	Pratt-Thomas Walker	2/12/2016	\$275.00	0.2	\$55.00	TPG	Financing
79338	Pratt-Thomas Walker	2/26/2016	\$350.00	0.2	\$70.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/26/2016	\$350.00	0.1	\$35.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.4	\$140.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.5	\$175.00	GTW	Water/Sewer line damage
79338	Pratt-Thomas Walker	2/29/2016	\$275.00	0.5	\$137.50	TPG	Water/Sewer line damage
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.1	\$35.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.4	\$140.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.2	\$70.00	GTW	Availability Fees - Customer Complaint
79338	Pratt-Thomas Walker	2/29/2016	\$350.00	0.4	\$140.00	GTW	Availability Fees - Customer Complaint
81037	Pratt-Thomas Walker	8/22/2016	\$350.00	0.1	\$35.00	GTW	Elevated Tank Property
81037	Pratt-Thomas Walker	8/22/2016	\$275.00	0.5	\$137.50	TPG	Elevated Tank Property
232	Walker Gressette Freeman Linton, LLC	3/6/2017	\$350.00	0.1	\$35.00	GTW	County Tax
444	Walker Gressette Freeman Linton, LLC	5/31/2017	\$300.00	0.3	\$90.00	TPG	Elevated Tank Property
<b>TOTAL</b>					<b>\$1,470.00</b>		

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Management Agreement**

**REHEARING EXHIBIT DMH-4**

**DIUC-ORS 1.9 Attachment A – GA Management Agreement**

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Management Agreement**

**REHEARING EXHIBIT DMH-4**

**MANAGEMENT AGREEMENT**

THIS MANAGEMENT AGREEMENT ("Agreement") is made this 18th day of June, 2015, between Guastella Associates, LLC, a Florida limited liability company ("GA"), and Daufuskie Island Utility Company, Inc. ("Company" or "DIUC"), a Florida corporation, the Company's parent corporation, Daufuskie Island Utility Holding Company, LLC a South Carolina limited liability company ("Parent") and the Parent's individual stockholders, together with the Company's, Parent's and Stockholders' heirs, assigns and successors (collectively, the Company, Parent and Stockholders are referred to hereafter as "Clients"). Clients and GA are collectively the "Parties".

**BACKGROUND**

- A. GA provides rate, valuation and management services to water and wastewater utilities.
- B. The Clients will retain GA to provide general rate and valuation services independent, separate and apart from this Agreement.
- C. In early 2010, GA (formerly G2 Utility Management LLC) began managing the Melrose Utility Company, Inc. ("MUC") by providing the same services as set forth in the agreement between the Clients and GA for the management of DIUC, and at similar fees. On March 1, 2010 MUC was merged with DIUC at the approval of the South Carolina Public Service Commission.
- D. The Clients wish to enter into this Agreement with GA, to provide management services to the Company that assist in the long-term success of the Company. The Parent and Stockholders are joining into this Agreement and are agreeing to be jointly and severally responsible with the Company to pay the Compensation specified in Article III of this Agreement in order to induce GA to enter into this Agreement and to agree to provide the services specified below to the Company, which will provide a material benefit to Parent and the Stockholders. GA would not otherwise enter into this Agreement without the inclusion of Parent and Stockholders.

NOW THEREFORE, in consideration of the promises and covenants herein the Parties agree as follows:

**ARTICLE I. COMPANY'S GOALS**

GA's management of the Company shall be guided by the following Company goals:

- 1. Provide safe and adequate water and wastewater service to customers on a continuous basis, and respond to customer inquiries quickly, accurately and courteously.
- 2. Comply with all environmental and economic regulatory requirements, and maintain operational records as required by the South Carolina Department of Health and Environmental Control ("DHEC") that are necessary to monitor the physical operation of



**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Management Agreement****REHEARING EXHIBIT DMH-4**

the Company on an ongoing basis as well as to plan for future additions and replacements.

3. Establish and maintain excellent relations with customers, community associations and regulators, including the DHEC, the South Carolina Public Service Commission ("PSC") and the Office of Regulatory Staff ("ORS").
4. Maintain financial books and records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts prescribed by the PSC in order to accurately record the cost of providing service and reflect the financial condition of the Company, and to justify the need, as appropriate, for general rate changes as well as support for special fees and charges.
5. Operate the Company efficiently and manage its assets in order to minimize the rates charged to the customers but also to achieve a reasonable profit for the stockholders so that the Company will be able to maintain financial viability and attract capital.
6. If appropriate and in the best interests of the customers and Company, plan for the expansion of the Company to new real estate developments or areas beyond the existing committed service area. Determine the fees and charges payable to the Company for infrastructure costs related to the expansion and for the "carrying costs" incurred by the Company for reserved capacity that is not in use. Any expansion will not jeopardize the ability to serve present and future customers in the existing service area with respect to water supply, service and cost.
7. All management decisions as to record keeping, rate setting and expansion will seek to include steps to maintain the Company's market value so that it will ultimately be postured for the potential sale and conversion of the expanded system into a municipal regional system, if appropriate in the future.

**ARTICLE II. SCOPE OF SERVICES**

GA will advise and report to the Company's president, and the president will be responsible to delegate to GA the authority to act on behalf of the Company in certain matters as identified by the president in order to allow GA to provide the services mentioned below. Only the president has the authority on behalf of the Company to direct GA and GA shall have the right to rely upon direction from the president as having full authority to act on behalf of the Company without the need to confirm such authority with the Company's board of directors, the Stockholders, the Parent or any other third parties. GA will provide the following services on behalf of and in the name of the Company:

1. Supervise the day to day operation and maintenance of the Company's system, including supervision of operating employees, vendors and contractors.
2. Maintain books and records, including accounting, financial and operation records, in accordance with the uniform system of accounts prescribed by the PSC and required by the DHEC.
3. Perform all billing, accounting and collecting (other than commencing litigation), including the preparation of customer account records and billing analyses as necessary for rate filing requirements.

**Daufuskie Island Utility Company, Inc.****Docket No. 2014-346-WS****Management Agreement****REHEARING EXHIBIT DMH-4**

4. Prepare financial and operating reports to regulatory agencies, including annual reports to the PSC and monthly operating reports to DHEC. Prepare annual budgets and financial reports to stockholders, as well as periodic (quarterly) financial and operating reports.
5. Provide information and assistance to outside tax accountants, consultants, engineers and attorneys as required in the normal course of business.
6. Obtain short and long term financing, as available and necessary, for operations and capital improvements and prepare the necessary documentation for lenders.
7. Employ and supervise all employees, vendors, contractors and outside professionals as appropriate to operate, maintain and expand the Company's system, to direct and supervise all plant expansion, capital improvements and replacements, and to carry out all other services required of GA under this Agreement.
8. Implement existing contracts with developers and customers, and negotiate and implement new contracts and applications for service.
9. Revise and maintain general tariff provisions as to rates and terms of service, in compliance with changes approved by the PSC.
10. Be responsible for and carry out all other business incidental to the ordinary course of business management and operation of the Company.

The above scope of services does not include, among other things, the preparation and filing of general rate increases, any economic and environmental regulatory investigations and proceedings for special or unusual issues, appraisals, valuations or other matters that are not routine in the day-to-day management or that would typically require the services of outside consultants. The Company will employ GA for such work under separate agreement and with the prior approval of the president of the Company. The Parent/Stockholder(s) shall also enter into a separate agreement with GA with respect to any contracts between the Parent/Stockholder(s) and third parties that seek extension of service outside of the Company's existing committed service area for the determination by GA of fees to be paid by the third parties that would allow for the recovery of the carrying costs that have been and will be absorbed by the Company's Parent/Stockholder(s) for the creation and growth of the utility.

### ARTICLE III. COMPENSATION FOR MANAGEMENT SERVICES

The Clients shall be jointly and severally liable to pay GA the following forms of compensation ("Compensation") in the amounts specified below:

1. **Management Fee.** The Clients shall pay GA a Management Fee in the amount of \$13,596.85 per month, payable in advance on the 1<sup>st</sup> day of each month, plus all of GA's out-of-pocket traveling expenses (including without limitation, transportation, room and board) and mileage reimbursement at the then current rate. The Management Fee shall increase annually beginning on January 1 of each year this Agreement is in effect by (a) 3.5% plus (b) for customer growth based on a formula that takes 25% of the existing Management Fee per existing equivalent residential connection (ERC) and applies that amount to the ERC's added in the immediately preceding year. For example, on January 1, 2016, the Management Fee would become \$14,344.68 per month ( $\$10,971 \times 1.035 + \$271.94 (.25 \times \$10,971/250)$

existing ERC x 20 ERC's added in 2011)). The number of ERC's used in this example is hypothetical only for the purposes of the example.

2. **Finance Fee.** The Clients recognize that GA's labor in connection with any long term funding is not covered by GA's standard Management Fee and the Clients, accordingly, agree to compensate GA for GA's efforts and labor in connection with or in any way related to long term funding at the greater of (i) 2% of the principal amount of any loan(s) which GA handles or processes; or (ii) GA's usual hourly rates for the actual time spent handling any facet of long term funding including without limitation communications with prospective lenders and the Clients; reviewing or negotiating loan terms or documents; communications with third parties regarding loan terms or documents; coordination of the execution of any loan documents and the closing of any loan transaction(s); and any other work related to long term funding. The Finance Fee shall be paid at the closing of any such loan.
3. **Capital Fee.** The Clients shall pay GA a Capital Fee for the procurement, contract preparation, administration and inspection of all capital improvements and additions, which Capital Fee shall be (a) 10% of the construction cost for projects to extend service outside the existing committed service area, and (b) 10% for the first \$50,000 of construction costs and 8% for amounts in excess of \$50,000 of construction costs for all other projects. GA shall bill the Capital Fee from time to time as construction costs are incurred and paid, and the Clients shall pay the Capital Fee no less than monthly as construction costs are being incurred.
4. **Incentive Fee.** The Clients shall pay GA an Incentive Fee, which shall be billed annually on or before March 15<sup>th</sup> of each year for the preceding year, and shall be paid within fifteen days after the bill has been sent to the Clients. The Incentive Fee shall be (a) 20% of the Total Net Utility Operating Income of the utility; and (b) in the event of the sale of the Company, in an amount equal to a percentage of the amount that the sale price or condemnation award exceeds the current adjusted purchase price in the amount of \$2,065,387.00 ("Adjusted Purchase Price"), to be paid at the closing of a sale or the payment of a condemnation award. The Adjusted Purchase Price reflects the current purchase price and related costs incurred by the Parent to acquire the utility. The Incentive Fee upon the sale of the Company shall be (a) 8% of the first \$3,000,000 that the sale price or condemnation award exceeds the Adjusted Purchase Price, plus (b) 12% of the next \$5,000,000 that the future sale price or condemnation award exceeds the Adjusted Purchase Price, and (c) 15% of all amounts in excess of \$8,000,000 over the Adjusted Purchase Price.

For the purposes of the above paragraph, Total Net Utility Operating Income is calculated as shown on Schedule 300 of the Company's annual report to the PSC, Form PSC/ORS (Rev. 12/2005), and reflected on line 26 of that form, which is attached hereto as Appendix A; and the "sale of the Company" means any transaction or series of transactions the purposes of which results directly or indirectly in (a) the sale or condemnation of (i) all or substantially all of the assets of the Company, (ii) any business or division of the Company, (iii) the capital securities or equivalents of the Company, in excess of 50%, or (iv) ownership rights in the Company sufficient to directly or

**Daufuskie Island Utility Company, Inc.**  
**Docket No. 2014-346-WS**  
**Management Agreement      REHEARING EXHIBIT DMH-4**

indirectly have the power to direct or cause the direction of the management and policies of the Company; (b) otherwise causing the Company to become a subsidiary of a company; or (c) a merger or consolidation or any other combination of the Company with another company, or any other governmental, quasi-governmental or other entity.

The Compensation includes all of GA's profit and overhead, and GA shall not bill any charges for office rent, equipment, furniture, computers and supplies owned and used by GA. The Company, however, shall continue to pay, at its sole cost and expense, its own employees, other contractors, repairs, maintenance, supplies, power, chemicals, taxes, regulatory assessment fees and all other operating expenses. The Company shall also maintain insurance that is sufficient to cover GA with respect to general and professional liability in such amount and under such terms that are acceptable to GA. GA has calculated and designed its Compensation for the above services at a cost that is generally in the range of allowable fees for rate setting purposes. The Parties intend that the Management Fee will be covered by general rates for services without subsidization by the Stockholders. However, the Clients understand and agree that GA's Management Fee is not contingent on the fees being allowed in general rates for services because the rates are subject to, among other things, Stockholder policy, unanticipated PSC decisions, regulatory lag or unusual events that would impact costs and timely cost recovery; and the Clients, in any case, shall still owe and pay GA's Management Fee. The Compensation to be paid does not include the physical operation of the systems that is performed by the Company's own employees and contractors, for which the Company shall continue to be separately and solely responsible.

**ARTICLE IV. TERM**

This Agreement shall be effective as of June 18, 2015 and shall continue for the remainder of the current calendar year and for three full calendar years beyond the current calendar year, until December 31, 2018 ("Initial Term"). After the Initial Term, this Agreement shall be automatically renewed on December 31 of every subsequent three-year period for successive three-year terms as long as at least one of John F. Guastella, Michael J. Guastella, and Gary C. White remain employed with or directly or indirectly has an ownership interest in GA. If at least one of John F. Guastella, Michael J. Guastella, and Gary C. White does not remain employed with or directly or indirectly has an ownership interest in GA, this Agreement shall be renewed on December 31 of every subsequent three-year period for successive three-year terms unless the Clients deliver a written notice of nonrenewal to GA no later than ninety (90) days before the end of the then existing term.

**ARTICLE V. TERMINATION**

The Clients may terminate this Agreement for cause if GA, after being notified in writing by the Clients of any failure by GA to perform its duties under this Agreement, fails to correct any failure of performance within thirty (30) days of receiving the Clients' notice, or if such cure shall take longer than 30 days, fails to implement such cure within the 30 day period and to diligently pursue such cure until completed. GA may terminate this Agreement for cause if the Clients, after being notified in writing by GA of any failure by the Clients to perform their duties under this Agreement, fail to correct any failure of performance within thirty (30) days of receiving GA's

notice, or if such cure shall take longer than 30 days, fail to implement such cure within the 30 day period and to diligently pursue such cure until completed. Either GA or the Clients may terminate this Agreement without notice if the other party, through any of its officers, directors, employees or shareholders, undertakes any illegal actions such that any of the Parties' officers, directors, employees or shareholders are convicted of a felony or misdemeanor involving a crime of moral turpitude. GA may terminate this Agreement without cause by giving the Company sixty (60) days advance written notice of GA's election to terminate the Agreement. In the event of termination of the Agreement by the Clients for cause or because of any illegal actions by GA's officers, directors, employees or shareholders or by GA without cause, the Clients shall pay GA any unpaid Compensation on a prorated basis up to and including the date of termination. In the event of termination of the Agreement by GA for cause or because of the illegal actions by the Stockholders or any of the Client's officers, directors, employees or shareholders, the Clients shall pay GA any unpaid Compensation up to the end of the then existing term. Additionally, the Clients recognize that GA's management of the Company will posture the Company for a sale at the Company's highest market value and the Clients, accordingly, shall pay GA the Incentive Fee specified in Article III, Paragraph 4(b), if any event entitling GA to the Incentive Fee occurs within fifteen (15) years of the termination or other expiration of the Agreement.

#### **ARTICLE VI. MISCELLANEOUS**

A. Assignment. The Clients shall not assign this Agreement without GA's express written consent. GA may not assign this Agreement without the Company's express written consent, except that GA shall be permitted to assign this Agreement to another entity in which at least one of John F. Guastella, Michael J. Guastella, or Gary C. White is employed by or directly or indirectly has an ownership in the assignee.

B. Choice of Law. This Agreement shall be governed by, and construed under, the laws of Florida without regard to the principles of conflict of law. Venue for any legal action under this Agreement shall be in the courts of the State of Florida in Palm Beach County, Florida.

C. Construction of Agreement. The Parties acknowledge that they have read this Agreement and have had the opportunity to be advised by legal counsel of their choice. This Agreement shall not be construed against any party because the party or its attorneys prepared the document. Typewritten or handwritten provisions inserted in this Agreement that are initialed by the Parties shall control over all printed provisions of this Agreement in conflict therewith.

D. Counterparts/Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same Agreement. A signature received by facsimile shall be deemed an original.

E. Entire Agreement. This Agreement constitutes the entire agreement between the Parties and cannot be waived or amended except by a written instrument executed by all Parties. None of the Parties have relied upon any information, representation, warranty or statement, whether oral or written, express or implied, made by anyone that is not expressly stated in this Agreement. Neither

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Management Agreement**

**REHEARING EXHIBIT DMH-4**

this Agreement nor any notice thereof shall be recorded in any public records.

**F. Further Documents.** The Parties agree to execute all documentation reasonably requested to give full force and effect to this Agreement.

**G. Headings.** The headings and titles of the Agreement provisions are for the convenience of the Parties only, and are not determinative of the contents of any paragraph. All paragraphs are to be interpreted by reviewing the entire contents of the paragraph.

**H. No Waiver.** No waiver of any provision of this Agreement shall be effective against any party unless it is in writing and signed by the party waiving such provision. A written waiver shall only be effective as to the specific instance for which it is obtained and shall not be deemed a continuing or future waiver.

**I. Notices.** All notices, requests, demands, instructions, consents and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given if and when (a) personally served, (b) sent by first class certified or registered mail, postage prepaid, return receipt requested, (c) transmitted by prepaid telegram, telex, or facsimile or by electronic mail, or (d) sent by a nationally recognized express courier service, postage or delivery charges prepaid to the parties at the addresses set forth above, or at such other address as either of them shall hereafter specify in writing or by facsimile transmission.

**J. Persons Bound.** This Agreement shall bind and inure to the benefit of the Parties, their heirs, successors and assigns. Whenever the context permits, singular shall include plural and one gender shall include all.

**Daufuskie Island Utility Company, Inc.**

**Docket No. 2014-346-WS**

**Management Agreement**

**REHEARING EXHIBIT DMH-4**

IN WITNESS WHEREOF, the Parties hereto have signed this agreement on the date specified below.

Guastella Associates, LLC, a Florida  
limited liability company

Daufuskie Island Utility Company, Inc., a  
South Carolina corporation

By:   
John F. Guastella, Managing Member

By:   
Terry R. Lee, its President

Confirmed and agreed to on behalf of  
Daufuskie Island Utility Holding Company,  
LLC, a South Carolina limited liability  
company, David Hutt, its Member, Ronald  
Shimanowitz, its Member and Terry R. Lee, its  
Managing Member

By:   
Terry R. Lee, its Managing Member

**Daufuskie Island Utility Company, Inc.  
Docket No. 2014-346-WS  
ORS Analysis of Management Fees**

**REHEARING EXHIBIT DMH-5**

<b>Management Fee Comparison by Company</b>						
<b>Company</b>	<b>Yearly</b>	<b>Monthly</b>	<b>Customers (Water)</b>	<b>Cost per Customer per Year</b>	<b>Cost per Customer per Month</b>	<b>Percent of Revenue</b>
Harbor Island Utility (Docket No. 2016-29-WS)	\$35,000	\$2,917	467	\$74.95	\$6.25	5.59%
Kiawah Island Utility (Docket No. 2016-222-WS)	\$365,095	\$30,425	4,273	\$85.44	\$7.12	4.64%
DIUC (Docket No. 2011-229-WS)*	\$132,211	\$11,018	436	\$303.24	\$25.27	12.49%
DIUC (Docket No. 2014-346-WS)*	\$171,365	\$14,280	462	\$370.92	\$30.91	8.90%

\* This total does not include additional rate case expenses, incentive fee, capital fee, or financing fee.